

RATE REGULATION:

**HOW ITS UNINTENDED
CONSEQUENCES COULD
GREATLY HARM PROGRAM
SERVICES**

CURRENT IMPACT ON DCI DUE TO THREAT OF RATE REGULATION

- **TLC LAUNCHES ARE STALLED AS OPERATORS AWAIT RE-REGULATION AND REFUSE TO LAUNCH ANYTHING MORE ON BASIC**
- **OPERATORS SAY "BASIC IS DEAD" "WE HAVE TO TIER YOU" BECAUSE WE CAN'T PASS ON COSTS IF WE ADD YOU TO BASIC**
- **AS OPERATORS MAKE ROOM FOR MUST CARRY, THEY USE UP CHANNELS AND CAN'T LAUNCH TLC**
- **WE HAVE HAD TO DRAMATICALLY SCALE BACK OUR BUSINESS PLAN EXPECTATIONS FOR TLC. GOAL NOW 30-40M SUBS VS 60M & AN ASSET WORTH A LOT LESS THAN DISCOVERY**

OUR PASSIONATE PLEA

**DON'T LET RATE REGULATION HURT
NEW CHANNELS LIKE LEARNING
ANY MORE THAN WE'VE BEEN HURT
ALREADY.**

WHY BEING ON BASIC IS OPTIMAL

- . Being on basic gives 100% of viewers in any market a chance of seeing your service**
- . Because basic carriage maximizes your sub volume, viewership and thus advertising revenue are maximized**
- . Consumers benefit: programming fee charged to affiliates, and ultimately consumers, is minimized**

WHY BEING ON A TIER SUB-OPTIMIZES

- In tiered world, subscribership and therefore viewership and ad revenue is

THE ECONOMICS TO A PROGRAMMER OF BEING CARRIED ON BASIC VS. BEING CARRIED ON TIER

ASSUMPTIONS:

- A network is carried by affiliates servicing 20 million "basic" households.
- Total annual expenditures for the network amount to \$50 million.
- In order to hit financial "break-even", the network must be able to achieve ad plus affiliate revenues totaling \$2.50 per "basic" household (\$2.50 x 20 million).
- For every household that the network is in, \$1.25 of ad revenue is expected to be earned (assuming viewership estimates are

ANALYSIS OF AFFILIATE FEE PRICING BASED ON DIFFERENT TIERING LEVEL SCENARIOS:

NETWORK PENETRATION	NETWORK SUBSCRIBERS*	ANNUAL AD SALES (@\$1.25/SUB)	REQUIRED SUB REVENUE (FOR "BREAK-EVEN")	REQUIRED SUBSCRIBER FEE/MONTH
100%	20 MILLION	\$25 MILLION	\$25 MILLION	10.0¢
80%	16 MILLION	\$20 MILLION	\$30 MILLION	16.0¢
60%	12 MILLION	\$15 MILLION	\$35 MILLION	24.0¢
40%	8 MILLION	\$10 MILLION	\$40 MILLION	42.0¢
20%	4 MILLION	\$5 MILLION	\$45 MILLION	94.0¢

10.0¢ for 20 Million "Basic" Subs

RECAP

RECAP OF REASONS WHY DISCOVERY COMMUNICATIONS, INC. HAS DIFFERENTIATED IN PRICING TO ITS AFFILIATES

1. **"CHARTER" AFFILIATES:** THE INITIAL GROUP OF AFFILIATES WHO ASSISTED THE NETWORKS BY AGREEING TO PAY A FEE. THEY DESERVE "SPECIAL" PRICING CONSIDERATION.
2. **"VOLUME" DISCOUNTS:** AFFILIATES THAT PROVIDE A GREATER QUANTITY OF SUBSCRIBERS MAKE A GREATER CONTRIBUTION TO NETWORK ADVERTISING AND AFFILIATE REVENUES AND THEREFORE DESERVE SPECIAL PRICING CONSIDERATION
3. **"LOW PENETRATION / TIERING" PENALTIES:** AFFILIATES AND THEIR SYSTEMS THAT PACKAGE OUR NETWORKS IN SUCH A WAY THAT THEY ACHIEVE LOW "PENETRATION" PAY A PENALTY (OR SURCHARGE). THE SURCHARGE IS INTENDED TO RECOVER LOST AD / AFFILIATE REVENUE AND INCENT RE-PACKAGING KEYED TO THE PERCENTAGE OF THEIR SUBSCRIBERS THAT RECEIVE THE SERVICE.
4. **HIGHER COST TO DELIVER, MARKET, OR SERVICE:** IF THERE ARE INCREMENTAL COSTS ASSOCIATED WITH PROVIDING SERVICE TO AN AFFILIATE OR GROUP OF AFFILIATES, THESE COSTS ARE RECOVERED THROUGH A HIGHER RATE PER SUB (E.G. TVRO, TIERS).
5. **STANDARDS/PRACTICES OF NON-VERTICALLY INTEGRATED PROGRAMMERS:** DCI HAS FOLLOWED PRACTICES USED BY NON-VERTICALLY INTEGRATED PROGRAMMERS, I.E., MARKET DRIVEN PRACTICES, BASING ITS TVRO RATE IN PART ON MARKET FACTORS.

OTHER PROBLEMS CAUSED BY TIERS:

REDUCTION IN SAMPLING UNIVERSE NEGATIVELY AFFECTS RATINGS.

ADVERTISERS WILL PAY US LESS IF THEY GET A "PORTION" OF ALL THE MAJOR MARKETS (20-30%) VERSUS ALL OF THE MAJOR MARKETS.

PERCEPTION OF GROWTH AND MOMENTUM IS VITAL TO ADVERTISERS. ON TIERS, GROWTH IS GREATLY SLOWED.

TIERS ARE EXTREMELY CONFUSING TO CONSUMERS. MARKETING TENDS TO SOUND LIKE ALPHABET SOUP.

PROBLEMS WITH TIERS CONTINUED....

**OUR BUSINESS PLANS CANNOT ABSORB THE HIGH COSTS OF THE
CONSTANT MARKETING THAT'S NECESSARY.**

ADVERTISING IS A MULTI-LEVELLED SALE. LOTS OF PEOPLE HAVE TO

ESTIMATED REVENUE LOSS TO DISCOVERY IF "LOWEST UNIT" RATE IS ADOPTED:

1993	1994	1995	1996	4 YEAR TOTAL
\$13M	\$12M	\$11M	\$10M	\$46M

ESTIMATED REVENUE LOSS TO TLC IF TIERING PRICES ARE CONSTRUED TO BE DISCRIMINATORY:

1993	1994	1995	1996	4 YEAR TOTAL
\$0M	\$2M	\$5M	\$10M	\$17M

TOTAL LOST REVENUE ESTIMATE:

1993	1994	1995	1996	4 YEAR TOTAL
\$13M	\$14M	\$16M	\$20M	\$63M

PROPOSED SOLUTIONS

PROPOSED SOLUTIONS - PROGRAM ACCESS

- **Presumption that pricing is not discriminatory or anti-competitive:**
 - **If programmer offers same rate card to alternate technologies (other than TVRO) as to cable affiliates**
 - **If rates to TVROs are under the average rate charged by non-vertically integrated programmers (less than 49¢)**
- **Create "safe harbor" for program services that serve 50% or more of SMATV, MMDC, TVRO and DBS (alternate technology) markets**
- **Grandfather existing contracts**
- **Create "safe harbor" for vertically integrated programmers whose practices closely parallel those of non-integrated programmers**

PROPOSED SOLUTIONS - RATE REGULATION

- **ALLOW OPERATORS TO PASS THROUGH**
 - **NET CAPACITY EXPANSION COSTS**
 - **TECHNOLOGICAL IMPROVEMENT COSTS**
 - **PROGRAMMING COSTS**

THESE PASS THROUGHES WILL ENCOURAGE INCREASED PROGRAMMING CHOICES FOR CONSUMERS & FOSTER NEW DEVELOPMENTS IN TECHNOLOGY WHICH WILL LEAD TO HIGHER QUALITY SERVICE. COST INCREASES WILL BE KEPT IN LINE BY EXTREMELY COMPETITIVE MARKET FORCES.

- **REGULATE BASIC TIER BY SETTING PER CHANNEL RATE RATHER THAN OVERALL RATE.**

OTHERWISE, OPERATORS WILL REMOVE NON MUST-CARRY SERVICES FROM BASIC. A PER CHANNEL RATE WILL DISCOURAGE TIERING AND THUS REDUCE THE LIKLIHOOD OF CONSUMER PRICE INCREASES

General Information on The Discovery Channel & The Learning Channel

FAST FACTS

HISTORICAL HIGHLIGHTS

1985

June 17

With financial backing from New York Life Insurance, Allen and Company Inc., and Group W Satellite Communications, The Discovery Channel, headed by founder, Chairman and CEO John Hendricks, launches on Galaxy 1 satellite, transponder 22, with approximately 156,000 subscribers.

1986

June

Four multiple system cable operators (MSOs) join previous backers in making an investment in The Discovery Channel. They are: United Cable Television Corp., Cox Cable Communications, Inc., Newhouse Broadcasting Corp., and Tele-Communications Inc. (TCI).

June 17

Discovery marks first anniversary, serving seven million subscribers.

July

Discovery offers the cable industry's first rebate affiliate program allowing operators to receive rebates on their sub fees, based upon advertising sales revenues.

October

Former MTV Networks VP of Marketing, Ruth Otte, is named President and Chief Operating Officer of Discovery.

1987

January

Discovery expands its programming schedule from 12 to 18 hours daily.

-Continued

February	Discovery, in association with Orbita Technologies Corporation, makes television history by broadcasting 66 hours of live Soviet television. Russia: Live From the Inside gives Americans their first glimpse of domestic Soviet television.
June 17	Discovery celebrates its second birthday announcing an unprecedented growth of 8.4 million subscribers for the first quarter of 1987, bringing subscriber base to 18.4 million (more than 100% growth over the previous year).
July	A.C. Nielsen begins to measure Discovery.
December	Discovery enters agreement with Mitsubishi Corporation which allows the latter to telecast Discovery programming in Japan via cable television and closed-circuit TV. Discovery ends the year with 27.5 million subscribers, representing a 170% growth over the previous year.

1988

January	Discovery is named the 1987 Golden ACE Award Winner for Russia: Live From the Inside .
April	Discovery is named the fastest growing cable television network in history by A.C. Nielsen.
June 17	Discovery celebrates its third anniversary with 32.1 million subscribers.
December	Discovery finishes the year with 38.1 million subscribers.

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FAST FACTS

Discovery Communications, Inc.

History/page three

1989

January

Discovery is named the fastest growing cable television network for the second year in a row by A.C. Nielsen.

March

Discovery subscriber base passes the 40 million mark with 40.6 million households on line (Nielsen, March 1989).

Cox Communications, Inc., NewChannels Corp. and TCI Development Corp. purchase shares of Discovery previously held by Allen and CO., New York Life, Westinghouse and other non-MSO investors of the network.

April

Discovery launches The Discovery Channel - Europe to more than 200,000 homes in the United Kingdom and Scandinavia.

Discovery ranks among the top cable networks in non-subscriber interest in Beta Research Corp.'s national non-subscriber poll.

September

Discovery launches its educational initiative, **Assignment Discovery**, a one-hour weekday morning program designed to be taped by teachers for use in the classroom.

Discovery begins week-long tribute to Africa with **Safari Live! Africa Watch**, an unprecedented live transmission from Kenya's Masai Mara Game Reserve. The tribute continued with **Ivory Wars**, and concluded with **Student Safari** which provided a live audio and video link between students in a Washington, D.C. television studio and African wildlife experts in Kenya.

November

Discovery passes 50 percent penetration of all U.S. TV households with a subscriber count of 46.1 million homes.

1990

- January Discovery launches The Discovery Interactive Library, cable television's first entry into the interactive video market.
- February Discovery forms its first corporate programming partnership, signing an agreement with Mobil Corporation, Saudi Basic Industries Corporation (SABIC), and the Saudi Arabian Oil Company (Saudi ARAMCO). The agreement supports the world television premiere of **Arabia: Sand, Sea & Sky**.
- April Discovery enters the home video arena via direct home video sales. Initial offerings include a minimum of one video per month.
- Discovery passes the 50 million subscriber mark according to A.C. Nielsen's May Universe Estimate. Discovery stands at 50,367,000 households and ranks as the 7th largest cable network.
- Discovery ranks #1 in non-subscriber interest (43%) in second annual Beta non-subscriber survey -- well ahead of CNN (35%), ESPN (35%) and AMC (33%).
- May Discovery announces that it will double its original programming hours and offer nearly seven times as many hours of originally created anthologies for its upcoming season.
- September Nielsen announces that Discovery is available to 52.5 million households, making it the sixth largest cable network and surpassing MTV.

1991

- March Discovery's Production Unit launches its quarterly **Discovery Specials** with the world television premiere of **Citizen Carter**, a chronicle of Jimmy Carter's post-presidential years.

FAST FACTS

Discovery Communications, Inc.

History/page five

April	Discovery continues as a top-ranked service in nonsubscriber interest, according to the Beta survey.
May	Discovery reaches definitive agreement to purchase The Learning Channel from Financial News Network and Infotechnology, Inc.
September	Discovery airs The Second Russian Revolution , an unprecedented six-part series on the rise and fall of Soviet President Mikhail Gorbachev. The critically acclaimed series features extensive interviews with Kremlin and KGB insiders.
October	Discovery Networks, a unit of the newly-formed Discovery Communications, Inc. (DCI), launches the new Learning Channel, devoted to making a world of ideas accessible to its viewers.
November	The Learning Channel premieres Teacher TV , a joint production with the National Education Association (NEA) "by, for and about teachers."

1992

January	Discovery gains its largest audience ever - 1.68 million viewers - with Wings Over the Gulf , which showcases the aircraft used during the 1991 Persian Gulf war. Discovery reports its highest-ever monthly prime-time ratings, with a 1.3 average during January, according to A.C. Nielsen. All other ratings categories increase as well.
February	Discovery Communications signs agreement with the Center for Democracy and the new Russian Federation to provide Russian citizens with programming teaching principles of Democracy.

February	Yankelovich Monitor study finds that Discovery is the most recognized environmental cable network, according to a survey of television viewers.
March	Discovery offers its viewers a fresh look at the 1992 presidential hopefuls with its timely special, The Presidential Candidates: Address to the Nation . The two-hour program is anchored by CBS News veteran Walter Cronkite.
April	<p>Discovery presents its most ambitious original production, In the Company of Whales, a feature length film that captures the true beauty and essence of the world's largest mammals. The film is hosted by the world's foremost whale expert, Roger Payne.</p> <p>The Learning Channel launches Teacher TV as a weekly series in response to the overwhelmingly positive feedback of teachers to the November 1991 pilot.</p>
May	<p>The Discovery Channel announces its fall season lineup, its most ambitious ever, with 33 percent of programming original, co-produced or commissioned.</p> <p>Discovery is again #1 in non-subscriber interest (62%) versus CNN (52%) and the Family Channel (43%). Discovery's new acquisition, The Learning Channel, is ranked #1 in non-subscriber interest among new channels (35%), outranking Comedy Central (28%) and the Sci-Fi Channel (26%).</p>
June 17	The Discovery Channel marks its 7th anniversary ranked as the 5th largest cable network with 57.8 million subscribers.
July	Discovery receives its first prime-time Emmy nomination as In the Company of Whales is nominated by the Academy of Television Arts and Sciences in the category of Informational Special.

FAST FACTS

Discovery Communications, Inc.

History/page seven

August

The Learning Channel announces the launching in December of **Ready, Set, Learn!**, a daily six-hour commercial-free block designed to engage two-to-six year olds in enriching programming solely devoted to enhancing their readiness for school.

October 1

A year after its relaunch, The Learning Channel celebrates its one-year anniversary with a subscribership of 17.6 million, up from 15.5 million, its count on October 1, 1991.

December 11

Discovery Communications, Inc. leaps into television's new technology field as it announces **Your Choice TV™** -- a venture designed to help organize the hundreds of new viewing options made possible by digital compression.

1993

January

Discovery Communications, Inc. consolidates ownership of The Discovery Channel - Europe as part of a strategy to create a global brand for the company's highly successful U.S. cable network, The Discovery Channel. DCI also consolidates ownership of The Learning Channel - U.K., which is currently a three-hour-a-day educational television service available only on cable in the United Kingdom.

FAST FACTS

The Discovery Channel Fast Facts

Programming:

The Discovery Channel is the only cable network to feature 18 hours a day of the world's finest non-fiction entertainment covering nature and the environment, science and technology, history, adventure and the people who share our world.

Hours:

9 AM to 3 AM ET (18 hours per day)

Launched:

June 17, 1985

Affiliates:

9,731 cable systems in all 211 DMA's

The Discovery Channel

(continued)

Gregory B. Moyer
Executive Vice President
Programming Group
Discovery Communications, Inc.

Charles Gingold
Senior Vice President
Programming, TDC-USA

Dawn McCall
Vice President
Affiliate Sales and Relations
The Discovery Channel

Chris Moseley
Senior Vice President
Marketing & Communications
Discovery Networks

Bill McGowan
Senior Vice President
Advertising Sales
Discovery Networks

Press Contacts:

Jim Boyle (ext. 5670)
Vice President
Communications

Susan Murrow (ext. 5432)
Director
Programming Publicity

Vicki Stearn (ext. 5436)
Senior Manager
Communications

Krista Van Lewen (ext. 5274)
Manager
Corporate Communications

DISCOVERY COMMUNICATIONS, INC.
7700 Wisconsin Avenue | Bethesda, Maryland | 20814-3522
(301) 986-1999 | (301) 986-4826 FAX